

# Sustainability, Strategy and Management Control: A Review of the Literature

1

**Nathalie CRUTZEN**, Dr, Assistant Professor in Sustainability and Strategy, Accenture Chair in Sustainable Strategy, HEC-Management School of the University of Liege, Belgium

**Christian HERZIG**, Dr, Lecturer in Sustainability Accounting and Reporting, ICCSR, Nottingham University Business School, UK



# Introduction

2

- Objective of the research: To review the literature on the association between sustainability, strategy and management control and to explore the state of knowledge in this area.
- Scientific interest
  - Previous research has underlined that (sustainability) management control systems play a key role in shaping processes of (sustainability/CSR) strategy formulation and implementation (Simons, 1990; Epstein and Wisner, 2005).
  - While the association between MCS and strategy has widely been investigated in the traditional accounting and management control literature (Simons, 1990; Langfield-Smith, 1997; Ferreira and Otley, 2009), it is much less frequent in the context of Sustainability. SEAR focuses mainly on external reporting and accountability (Albelda, 2011; Gray, 2002) or on the link between CSR and economic performance (Henri and Journeault, 2010).
  - Several researchers have stressed the need for research on the association between sustainability, strategy and MC (Parker, 2000; Burritt, 2004; Chung and Parker, 2008; Durden, 2008) → A growing body of literature has emerged over the last years.
- *How is this literature organized?*
- Managerial interest

Many companies are still confronted to difficulties to “operationalize” sustainability and to translate their strategic aspirations into practice (Schaltegger and Wagner, 2006; Accenture Research 2011)

# Key concepts

3

- **CSR- Sustainability**

- **Strategy**

Direction and scope of an organisation over the *long term*, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholders' expectations (Johnson, 1987)

- **Management Control (Systems)**

Evolving formal and informal mechanisms, processes, systems, and networks used by organizations for conveying the key objectives and goals elicited by management, for assisting the strategic process and on-going management through analysis, planning, measurement, control, rewarding, and broadly managing performance, and for supporting and facilitating organizational learning and change (Ferreira and Otley, 2008)

- **Sustainability Management Control (Systems)**

Measurement and management of the interaction between business, society and the environment (Bennett and James, 1997)

# Research design

4

- Iterative Approach:

1. Clarification of the research purpose
2. Identification of key words (see appendix)
3. Search on data bases (EBSCO, Pro Quest ABI/Inform Global) based on these criteria
4. Selection of relevant papers based on reading abstracts and papers
5. Reading of the papers + Analysis of references' lists
6. Completion/refinement of the selection of papers



→ Saturation

- 80 academic papers were finally retained

- Remark: Difficulties related to the identification and selection of relevant papers

- No-generally-accepted definitions of the concepts
- « Emerging » association which can be studied through the lenses of various disciplines (ex. accounting, strategy, information system)
- Only an implicit link between “Sustainability, Strategy and MC” can be made in some papers. For example, some papers propose a “stakeholders’ approach of management control (eg. Norris and O’Dwyer, 2004; Perrini and Tencati, 2006; Durden, 2008)

# Framework for analysis

5

- The criteria selected for our analysis are broadly framed according to three dimensions: Theoretical foundations, Content and Methodology

## 1. **Theoretical foundations**

- Disciplines
- Theory Schools (Mc Williams et al., 2006)
- Strategy frameworks
  - Emergent – Deliberate Strategy (Mintzberg, 1985)
  - Strategy-as-process – Strategy-as-practice (Whittington, 1997)
- Managerial VS Critical Perspectives (Gray, 2002; Brown and Fraser, 2006; Schaltegger and Burritt, 2010)

## 2. **Content**

- Themes/Research questions
- Dimensions (Social – Environmental – Economic)
- Type of control mechanisms (formal – informal / accounting based – non accounting based)
- MCS as a “system” VS MCS as a “package” (Ferreira and Otley, 2008; Otley, 2009)

## 3. **Methodology**

- Basic type of research (Conceptual – Empirical research)
- If empirical: Research approach (qualitative VS quantitative) - Number of cases - Research method (interviews, field research, survey) - Timeliness (Longitudinal VS cross-sectional studies) – Respondents/Interviewees (CSR managers, Accountants, etc.)
- Research focus: Country, Type of organizations, Time period

# Preliminary findings

6

- **Theoretical foundations (1)**

- The concepts of strategy, sustainability and MC are multidimensional in nature : they could thus be studied through the lenses of various disciplines (from the management science or not!) (Milne, 1996; Langfield-Smith, 1997; Yakhou and Dorweiler, 2004; Mc Williams, 2006).

However, most current publications belong to the **accounting** or to **CSR literature** and no real multidisciplinary research on the association between these concepts has been identified yet.

*Some notable exceptions:*

- Limited number of publications in general or **strategic management** journals, such as Business Horizons, Journal of Management Studies or Long Range Planning.
- Rare contributions in IS literature (eg. Journal of Information Systems)
- A few researchers with more technical backgrounds (IT, engineering, environmental science) are contributors to the accounting or CSR literature on this topic
- A large part of the papers lack (coherent) theoretical foundations. For example, traditional theory schools such as the RBV or the contingency theory have been very little explicitly used in the papers.

This observation is consistent with the statement made by Ferreira and Otley (2009) about the “traditional” literature → less systematic development of knowledge in the area (Chapman, 1997).

# Preliminary findings

7

- **Theoretical foundations (2)**

- Most publications refer (explicitly or implicitly) to traditional strategy frameworks, which are sometimes perceived as “out-dated”
  - Deliberate view of strategy
  - “Strategy-as-process” framework

This echoes Chenhall (2003) argument that strategy constructs used in accounting studies may be out-dated.

*Some notable exceptions:*

- Gond and Herrbach (2006); Gond et al. (2012)
- Norris and O'Dwyer (2004); Chung and Parker (2008)

- Pragmatism over critique (Gray, 2002; Burritt and Schaltegger, 2010)

The large majority (all?) of the publications have adopted a **managerial perspective**.

The majority of the papers have a shareholders' orientation (eg. Johnson, 1998; Figge et al, 2002; Epstein and Wisner, 2005). (// business case perspective – Brown and Fraser, 2006)

Nevertheless, over the recent years, an increasing number of papers using a stakeholders' perspective have been detected (eg. Van der Woerd and Van den Brink, 2004; Durden, 2008; Leon-Soriano, 2010) (// stakeholders' accountability perspective – Brown and Fraser, 2006)

# Preliminary findings

8

- **Content**

- Themes/Research questions (on-going work)
  - ✦ Many « prescriptive » papers on the process of strategy *implementation* thanks to MCS
  - ✦ The “*Integration*” issue seems to be a key topic (integrated VS decoupled approaches)
- Consistent with other research published in the field, predominance of research dedicated to the environmental pillar. Any research dedicated to the social pillar only has been identified yet.  
Nevertheless, more and more publications deal with all three pillars (integration)
- The majority of the studies concentrate on accounting-based and formal control mechanisms (Norris and O’Dwyer, 2004)  
*Notable exceptions:* Epstein and Wisner (2005), Norris and O’Dwyer (2004), Riccobani and Leone (2010)

- **Methodology**

- A large part of the publications propose prescriptive models without any empirical part or with illustrative cases only
- When empirical research is proposed, a large proportion of the studies is based on in-depth fieldwork → response to the call for more « engaging research » in the field (Gibbons et al., 1994; Lean et al., 2002; Adams and Larrigana-Gonzales, 2007)
- The majority of the papers clearly focus on large firms  
*Notable exception:* Durden (2008) and Perrini and Tencati (2006) focus on SMEs
- Few longitudinal studies have been identified



# Concluding comments

9

- On-going research project ...
- Key *first* general observations
  - There seems to be a need for more multidisciplinary research
  - Lots of previous research lacks of strong and coherent theoretical foundations while:
    - ✦ They are essential for a more systematic development of knowledge in the area
    - ✦ Lots of frameworks developed in the strategy or management control literature could be mobilised
  - With reference to the predominance of the managerial perspective and of “engaging research”, it is essential to ensure a distance from the ground if we want to develop alternative and (radically) innovative approaches (Pedersen and Neergaard, 2008)
  - Research dealing with the integration of social, environmental and economic aspects in strategy and MC still has to be developed (key issue in the area!)
  - Gaps in the literature have been underlined, in terms of content and methodology → potential directions for future research
- Comments are welcome !
  - Selection of papers ?
  - Criteria for analysis ?
  - Findings ?

# Key References

10

- Albelda E (2011). The role of management accounting practices as facilitators of the environmental management: Evidence from EMAS organisations. *Sustainability Accounting, Management and Policy Journal* 2 (1), 76-100.
- Bonacchi, M., Rinaldi, L., 2007. DartBoards and clovers as new tools in sustainability planning and control. *Business Strategy and the Environment* 16 (7), 461-473
- Burritt R and Schaltegger S(2010). Sustainability accounting and reporting: fad or trend?. *Accounting, Auditing and Accountability Journal* 23 (7); 829-846.
- Chenhall, R., 2003. Management control systems design within its organizational context: findings from contingency-based research and directions for the future. *Accounting, Organizations and Society* 28 (2-3), 127-168.
- Durden, C., 2008. Towards a socially responsible management control system. *Accounting, Auditing & Accountability Journal* 21 (5), 671-694.
- Epstein M and Wisner P (2005). Managing and controlling for environmental performance: Evidence from Mexico. *Advances in Accounting* 14, 115- 136.
- Gond, JP, Grubnic, S, Herzig, C and Moon, J (2012), Configuring management control system: Theorizing the integration of strategy and sustainability, *Management Accounting Research*, 23, 205-223.
- Langfield-Smith, K., 1997. Management control systems and strategy: a critical review. *Accounting, Organizations and Society* 22 (2), 207-232.
- Mintzberg, H.T., Waters, J.A., 1985. Of strategies, deliberate and emergent. *Strategic Management Journal* 6, 257-272.
- Norris, G. and O'Dwyer, B. (2004). Motivating socially responsive decision making: the operation of management controls in a socially responsive organisation. *The British Accounting Review* 36, 173-96.
- Parker, L. (2000). Environmental costing: a path to implementation. *Australian Accounting Review*, 10 (3), 43-5
- Simons, R., 1990. The role of management control systems in creating competitive advantage: new perspectives. *Accounting, Organizations and Society* 15 (1/2), 127-143
- Otley, D.T., 1999. Performance management: a framework for management control system research. *Management Accounting Research* 10, 363-382.